

GOUDY PARK C A P I T A L

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	3Q2022 Return	YTD to Q3 Return
Goudy Park Capital	-3.61%	-25.22%
Russell 2000 Growth	0.24%	-29.28%
S&P 500	-4.88%	-23.87%
Nasdaq 100	-4.63%	-32.77%

Despite outperforming almost all the benchmarks in Q3, we continue to find it difficult to be properly compensated for taking risk. As a result, we generally remain in a capital preservation mode, while opportunistically continuing to look for asymmetric long term investments. Core inflation remains extremely elevated at 6.3% and well above the Fed's 2% target, while interest rates also continue to rise and are still likely to reach a peak of 5%-6.5% exiting 2023. Therefore, we see the likelihood of stagflation increasing and GDP growth slowing. Meanwhile, geopolitical risks remain heightened with the Russia-Ukraine War, China-US relations, and China-Taiwan tensions. In addition, Europe's inflation is higher than the U.S. and its energy dependence on Russia will be put to the test this winter.

Therefore, we think it is premature and dangerous to try to make a call now on peak inflation and when rates will have to be reduced. As a result, we have continued to hold a higher than normal amount of cash and have over weighted our portfolio to more durable and strong cash flow companies, while also continuing to short a basket of expensive and unprofitable technology companies.

Despite our words of caution, there are companies that are performing well in this environment and there are also others that are becoming more attractively valued, which is why we wish to have cash to opportunistically deploy given the volatile and uncertain current environment. We want to have dry powder if the likely recession in 2023 proves to be more severe than expected.

We have compounded our limited partner's capital at 27% net of fees since 2017 because we have taken a long-term view and have been willing to hold some of our companies through ugly periods of market volatility. We do this because of the longer term capital appreciation potential. Drawdowns are highly unpleasant, but they are also largely unavoidable if you want to generate higher returns over time and ideally have a lower tax bill. From the beginning of Covid to now, Goudy Park has returned 98% net of fees or a 28% CAGR, which includes being down 20% year to date. During this same time period, the S&P has generated a 25% return and a 9% CAGR, while our closest benchmark, the MSCI World Small Cap Index has grown 11% over the time period and generated a 4% CAGR. In order to generate high returns, our focus remains on finding great long term investments, while being prudent protectors of our capital during challenging periods such as now.

In terms of how we have structured the current portfolio, we have reduced our exposure to unprofitable growth companies and illiquid companies given the current macro environment, in favor of durable and defensive companies that generate strong Free Cash Flow and are able to return cash to shareholders. However, with that being said, we still have selective investments in small growth companies. We will look to deploy more capital into these companies as the environment improves, interest rates eventually come down, and valuations compress because over a long term time horizon, we will make the most money in these growth investments.

The microcap component of our portfolio is comprised of 5 companies today including: Endor AG, Galaxy Gaming, Champions Oncology, Konatel and Prontoforms. These companies have market caps below \$200m and are companies that we believe have the potential to see significant upside. All of these companies are performing well except for Prontoforms. Prontoforms is a SaaS business with a good product, but the company isn't growing as fast as we would like, and we think a strategic software buyer could pay a 100% premium for its installed base of recurring revenue customers. We have a very small position, given the company hasn't been able to accelerate its growth and we and other shareholders are pushing the board for a sale.

In terms of the growth portion of the portfolio, we would include ACV Auto Auctions, Avid BioServices, Bill.com Holdings, Proton Green and Temple & Webster. All of these companies are market leaders in their respective industries and should be able to sustain 30% plus growth for the next several years, while showing substantial operating leverage.

The growth with strong cash flow portion of our portfolio represents the largest component of our portfolio today. The primary contributors to this sleeve of the portfolio include: Franklin Covey, Vitec, International Money Express, Inc., Energy Transfer L.P., Paycom, Valvoline, NZM, Formula One, Casella Waste, CCC Intelligent Solutions Holdings, Evolution AB and Chemometec.

Franklin Covey (FC):

Franklin Covey is our largest current position at around 7% of the portfolio, which we added to in Q3. I took an initial position in the company when I worked for a former employer back in 2005. The company has generated a 17x return, which speaks to the returns and tax deferrals that can be achieved through successful small cap investing. When I originally invested in Franklin Covey, the company had a low growth, legacy physical daily planner and a training consulting business. Today, the company has transformed itself into a cloud based leadership training software company with accelerating high teens revenue growth, 25-30% EBITDA growth, and strong free cash flow. The company trades at 13x EBITDA and we believe that the multiple could reach the mid to high teens over-time as the company scales. The company has bought back over 50% of its outstanding shares over the last 12 years with its free cash flow in addition to making tuck in acquisitions. While there is some risk that growth could slow modestly in a recession, our sense is that leadership and performance training for company's top executives or key divisions has become even more stickier in the current environment that is valuing talent and hiring much more than before the pandemic. The company just completed its fiscal year for 2022 and we have modeled that the company should earn approximately \$5 a share in EBITDA in FY2025 barring a protracted deep recession. We believe this should value the company at \$80 up from \$50 today. This excludes any acquisitions or future share repurchases, which could push the value closer to \$90.

Endor AG (E2N):

We continue to add to our position in Endor AG. Endor develops and markets high-quality input devices such as high-end steering wheels and pedals for racing simulations on gaming consoles and PCs, as well as driving school simulators. Endor sells its products primarily to end customers in Europe, the US, Canada, Australia and Japan under the FANATEC brand via its direct to consumer e-commerce model. The company has benefitted from the growing popularity in Formula One racing, which is now the most followed sport in the world with over 400 million fans. Revenues will grow to approximately \$110 million in 2022 up nearly 100% with mid teen EBITDA margins. The company has been constrained by inventory issues in 2021 and 2022, but we expect this to normalize in 2023, allowing the company to better fulfill demand. Unlike e-commerce sites that sell other company's products at lower gross margins, Endor sells its proprietary products directly at 50% plus gross margins. We have modeled for the company to reach \$250m in revenue in 2025, while generating \$4 plus per share in EBITDA. This excludes any future buybacks or acquisitions. The stock trades at \$11.50 today and it could be worth \$50 in 2025 if the management team is able to continue to scale the business. The risk is that the stock is illiquid, but the founder is the majority shareholder with his passion and net-worth tied to the company. We like the fact he has substantial skin in the game and the products are best in class. We also like that the stock currently trades at 6x our 2023 EBITDA estimate and 8x our 2023 Free Cash Flow estimate, which provides for substantial downside protection. This investment is a great example of being able to buy a high quality, profitable business at a sizeable discount, given the lack of liquidity and coverage for the company. The catalyst to improve the liquidity will come in late 2023 when the stock is expected to be uplisted to a larger exchange, and analyst coverage is initiated.

Valvoline Inc. (VVV):

Valvoline is another high cash flow business that we added to the portfolio earlier this year. We added to our position on recent weakness. The thesis here is that the company agreed to the sale of its oil consumer products business to Saudi Aramco, which comprised over 60% of the revenue of the company. Valvoline is now transitioning itself into a pure play, quick lube retail operator with both company owned and franchised stores. The transaction should close in Q1 of 2023. There are 450m oil changes a year in the US, and 24m of them are done by Valvoline. The company is in a strong position to gain market share as they plan to expand their number of retail stores by 100+ a year. Preventive car maintenance such as oil changes and other vehicle services are relatively non-discretionary. We believe the company will see accelerating revenue growth during a recession as consumers hold onto older cars for longer and some new car purchases are delayed. Valvoline recently reported its FYQ4 numbers, which included strong 9% same store sales ("SSS") growth. More positively, the company raised SSS growth guidance for Fiscal Year 2023, citing increased market share, better utilization and consumers holding onto older vehicles. Valvoline tracks their customers license plate info, and estimates its customers get oil changes from them twice a year. The company has historically been viewed as an oil and chemical company with a single digit multiple, while retail franchise businesses typically are valued between 15-20x EBITDA. The retail business is a mid20's EBITDA margin business with double digit annual sales growth and room to expand. Once the sale of its global products business to Saudi Aramco closes and Valvoline becomes a stand alone, pure play retail business with a high percentage of

franchised stores, we expect the stock will trade higher as investors further appreciate the higher value of the retail business. We also like that Valvoline will be aggressively buying back stock with over half of the \$2.65B of proceeds from the sale of its global products business. The risk to Valvoline is that over time more and more electric vehicles will be on the road and these cars will potentially require less maintenance. While we think this is a risk, we think it is years away from slowing the growth of Valvoline's business demonstrated by the company's continued strong growth. Our expectation is for Valvoline to generate high teens EBITDA growth, plus share repurchases and dividend payouts over the next couple of years with room for modest multiple expansion.

During the quarter we sold our positions in Digitalbridge, Verint and Tucows. Digitalbridge and Tucows have very attractive long term growth characteristics, but neither company is well positioned to do well in a high interest rate environment, so we exited our positions. Verint's stock ran up on its quarterly results and we sold on strength because of the company's exposure to a strong dollar.

We continue to believe growth is going to underperform in the near term and we will continue to opportunistically maintain modest short positions in a basket of expensive, high growth, unprofitable stocks where we think numbers have to come down for 2023.

We are actively doing due diligence on a very interesting microcap idea that on normalized numbers trades at 2.5x EBITDA as well as a number of other great businesses with proven management teams, whose stocks are under pressure as a part of year end tax loss selling. I am also pleased that our performance has gotten off to a strong start in December, which has been aided in part by our European holdings, which have rallied from very attractive lows.

Thank you again for your support and patience during a challenging year. Achieving investment success is often psychological warfare and in order to win, one has to be patient and stay disciplined. We will get more shots on goal in the months and years ahead. Our job is to be ready for when the opportunities present themselves.

Jamie

A handwritten signature in cursive script that reads "James W. DeFary Jr".